Eight Mile Style, LLC et al v. Apple Computer, Incorporated

Doc. 38

UNITED STATES DISTRICT COURT
IN THE EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

EIGHT MILE STYLE, LLC and
MARTIN AFFILIATED, LLC,

Plaintiffs

vs.

Case No. 2:07-CV-13164
Honorable Anna Diggs Taylor
Magistrate Judge Donald A. Scheer

APPLE COMPUTER, INC. and
AFTERMATH RECORDS d/b/a
AFTERMATH ENTERTAINMENT,

Defendants.

______________________________________/

DEFENDANTS AFTERMATH RECORDS' AND APPLE INC.'S MOTION TO BIFURCATE DAMAGES DISCOVERY AND TRIAL

Daniel D. Quick (P48109)
Dickinson Wright PLLC
38525 Woodward Avenue
Suite 2000
Bloomfield Hills, MI 48304
(248) 433-7200
dquick@dickinsonwright.com

Kelly M. Klaus
Munger, Tolles & Olson LLP
355 South Grand Avenue
Suite 3500
Los Angeles, CA 90071-1560
(213) 683-9238
kelly.klaus@mto.com

Attorneys for Aftermath Records

Dockets.Justia.com

MOTION TO BIFURCATE DAMAGES DISCOVERY AND TRIAL

Defendants Aftermath Records, doing business as Aftermath Entertainment ("Aftermath"), and Apple Inc. ("Apple"), through their counsel, Dickinson Wright PLLC and Munger, Tolles & Olson LLP, hereby move for an order to bifurcate damages discovery and trial under Fed. R. Civ. P. 42(b) between liability and damages issues. This is a copyright infringement action brought pursuant to the Copyright Act of 1976, 17 U.S.C. § 101 *et. seq.*, and is an appropriate case for such a bifurcation order.

In support of this Motion, Defendants rely upon the facts, law and argument contained within the accompanying Brief in Support, all pleadings filed in this action, and any further submissions or arguments of counsel as may properly come before this Court.

Pursuant to Local Rule 7.1(a), Plaintiffs' concurrence in the relief requested in this Motion was sought, but not obtained.

WHEREFORE, Aftermath and Apple respectfully request that this Court grant their Motion to Bifurcate Damages Discovery and Trial, pursuant to Fed. R. Civ. P. 42(b), and order that the issue of liability be tried and subject to discovery first and separately from the issue of damages.

s/Daniel D. Quick
Daniel D. Quick (P48109)
Dickinson Wright PLLC
38525 Woodward Avenue
Suite 2000
Bloomfield Hills, MI 48304
(248) 433-7200
dquick@dickinsonwright.com

Kelly M. Klaus
Munger, Tolles & Olson LLP
355 South Grand Avenue
Suite 3500
Los Angeles, CA 90071-1560
(213) 683-9238
kelly.klaus@mto.com

Attorneys for Defendants

UNITED STATES DISTRICT COURT
IN THE EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

EIGHT MILE STYLE, LLC and
MARTIN AFFILIATED, LLC,

Plaintiffs

vs.

APPLE COMPUTER, INC. and
AFTERMATH RECORDS d/b/a
AFTERMATH ENTERTAINMENT,

Defendants.

______________________________/

Case No. 2:07-CV-13164
Honorable Anna Diggs Taylor
Magistrate Judge Donald A. Scheer

BRIEF IN SUPPORT OF DEFENDANTS AFTERMATH RECORDS' AND APPLE INC.'S MOTION TO BIFURCATE DAMAGES DISCOVERY AND TRIAL

CONCISE STATEMENT OF ISSUE PRESENTED

Whether this Court, pursuant to Fed. R. Civ. P. 42(b), should bifurcate discovery and trial in this copyright infringement action between liability and damages, where these issues are wholly unrelated to one another; where discovery on these topics does not overlap and discovery on damages issues would be unduly burdensome; and where potential confusion, waste of judicial resources, and prejudice may be obviated through bifurcation?

Defendants Aftermath Records and Apple Inc. answer: "Yes."

CONTROLLING AUTHORITIES

17 U.S.C. §§ 502–505

Fed. R. Civ. P. 42

American Trim, L.L.C. v. Oracle Corp., 383 F.3d 462 (6th Cir. 2004)

Crummett v. Corbin, 475 F.2d 816 (6th Cir. 1973)

Cravens v. County of Wood, Ohio, 856 F.2d 753 (6th Cir. 1988)

Ellingson Timber Co. v. Great Northern Railroad Co., 424 F.2d 497 (9th Cir. 1970)

Gafford v. General Electric Co., 997 F.2d 150 (6th Cir. 1993)

Helminski v. Ayerst Laboratories, 766 F.2d 208 (6th Cir. 1985)

Hines v. Joy Manufacturing Co., 850 F.2d 1152 (6th Cir. 1988)

In Re Bendectin Litigation, 857 F.2d 290 (6th Cir. 1988)

Murray Hill Publications, Inc. v. Twentieth Century Fox Film Corp., 361 F.3d 312 (6th Cir. 2004)

Reinhardt v. Wal-Mart Stores, Inc., No. 07 Civ. 8233 (SAS), 2008 WL 1781232 (S.D.N.Y. Apr. 18, 2008)

3 Paul Goldstein, *Goldstein on Copyright* (3d ed. 2005)

9 C. Wright & A. Miller, *Federal Practice & Procedure* (1971)

4 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright* (2007)

BRIEF IN SUPPORT OF DEFENDANTS AFTERMATH RECORDS' AND APPLE INC.'S MOTION TO BIFURCATE DAMAGES DISCOVERY AND TRIAL

I. INTRODUCTION

Judicial economy, conservation of resources, and protection against undue prejudice make bifurcation of copyright actions particularly appropriate. This case is no different. Not only are the liability issues in this case separate and distinct from the damages issues, but the damages discovery will dwarf all other discovery in this case several times over, and ultimately prove to be a complete waste of time and money if liability is never proven.

Plaintiffs allege that Defendants Aftermath Records ("Aftermath") and Apple Inc. ("Apple") (jointly "Defendants") have infringed upon Plaintiffs' claimed copyrights in 93 separate musical compositions written and recorded by the artist Marshall B. Mathers III (p/k/a "Eminem"). Aftermath is Eminem's record company; Apple operates the immensely popular iTunes Store; and Plaintiffs are the publishers of Eminem's musical compositions.[1] Plaintiffs claim that Defendants have infringed upon the compositions in connection with the sale through iTunes of digital downloads of recordings that embody these compositions.[2] Defendants disagree and have filed a Motion for Summary Judgment on the grounds that their activities were fully licensed (both expressly and impliedly) and that Plaintiffs have been paid their royalty for all of the sales through iTunes.

Under the circumstances applicable here, the Sixth Circuit has long recognized that bifurcation pursuant to Fed. R. Civ. P. 42(b) of liability and damages is appropriate. There is no overlap between the liability and damages issues. The information that is related to Plaintiffs' infringement claim – namely, whether Aftermath had the right to authorize Apple to sell the Eminem recordings and the compositions embodied in them – is entirely separate and unrelated to the complex damages discovery and trial testimony that would be required to litigate Plaintiffs' claim for Aftermath's profits attributable to the alleged infringement. As stated by Professor Paul Goldstein in his leading treatise on copyright law, bifurcation of liability from damages is appropriate and logical in a copyright case such as this:

---

[1] Eminem is not a party to this litigation.
[2] Apple resells those recordings pursuant to an agreement with UMG Recordings, Inc. ("UMG"). UMG is a partner in the Aftermath joint venture and distributes the Eminem recordings through a variety of distribution channels, including through iTunes.

> [S]eparate trials on liability and monetary recovery will in many, if not most, cases promote convenience, expedition and economy – three of the avowed objects of Federal Rule 42(b), which authorizes separate trials. . . . ***[I]t is the rare copyright case in which the facts that bear on monetary recovery – the extent of the plaintiff's injury and the defendant's profits – will even marginally overlap the facts that bear on liability – ownership, infringement and affirmative defenses***.... The most obvious virtue of separate trials on liability and monetary relief is that a decision for the defendant in the first trial will obviate a second trial. This virtue will be particularly compelling in cases where few facts need to be found for the court to determine the defendant's liability. ***Separate trials have the added virtue of saving the defendant from what may turn out to be the needless, but invariably time-consuming, task of responding to a plaintiff's discovery requests on net profits***. By postponing discovery of profits to the second trial – if, indeed, there is a second trial – courts can eliminate wasteful expenditures by the parties.

3 Paul Goldstein, *Goldstein on Copyright* § 16.5 (3d ed. 2005) (emphasis added).

Professor Goldstein's leading treatise recognizes that proof of damages routinely involves the complicated task of parsing a defendant's documents and financial information (including sales and costs) to arrive at a net profit. That profit is then allocated – typically by experts – between the alleged infringing and non-infringing portions of each work allegedly infringed. This is an expensive and extensive process that is unnecessary unless liability is found.

Therefore, this case should first focus on the liability issues and if liability is found (which is highly unlikely), then the parties can focus on damages.

II. FACTUAL BACKGROUND

A. Procedural Posture

The Plaintiffs in this case are Eight Mile Style, LLC ("Eight Mile") and Martin Affiliated, LLC ("Martin Affiliated") (jointly "Plaintiffs"). Compl. ¶¶ 1-2. The Plaintiffs claim to have ownership interests in 93 musical compositions that are "written and composed, in part, by Marshall B. Mathers, III, professionally known as 'Eminem.'" *Id.* ¶ 8. Plaintiffs' claim that all of the compositions in issue are copyrighted works under the Copyright Act, 17 U.S.C. § 101 *et seq.*

Plaintiffs filed their Complaint in this Court on July 30, 2007, initially naming only Apple as a Defendant. Plaintiffs claim that Apple has been distributing through its iTunes store "digital downloading of recordings" of Eminem sound recordings that embody the compositions in issue. Compl. ¶¶ 9-12. Plaintiffs contend that Apple's distribution of those recordings without authorization amounts to infringement of the copyrights they claim to hold in the underlying compositions. *Id.* ¶ 13. Plaintiffs' Complaint expressly avers that Apple has distributed the Eminem sound recordings with the authorization of UMG, a partner in the Aftermath joint venture and the entity that distributes recordings in Aftermath's catalogue. *Id.* ¶ 12. Because Plaintiffs' Complaint implicates the right of Aftermath (through UMG) to authorize the sale in digital format of the sound recordings embodying the compositions, Aftermath (with Plaintiffs' consent) was permitted to intervene as a party Defendant in this action. *See* Stipulated Order Permitting Intervention (Docket Entry No. 8) (filed Sept. 7, 2007).

Discovery cutoff in this case was originally set for May 16, 2008. *See* Scheduling Order (Docket Entry No. 20) (filed Jan. 8, 2008). The parties recently have stipulated to extend the discovery cut-off to June 2, 2008. *See* Stipulation and Order to Amend the Scheduling Order (entered April 29, 2008). The parties' responses to written discovery requests were exchanged in late March 2008. Declaration of Kimberly Encinas ("Encinas Decl.") ¶ 3.[3] Plaintiffs have indicated an interest in taking a total of approximately nine depositions in this case. Plaintiffs have requested the depositions of the following Aftermath-affiliated individuals: Rand Hoffman, Lisa Rogell, Scott Aronson, Peter Paterno, Chad Gary, Todd Douglas, Fred Eisler, and James Harrington. *Id.* ¶ 4. Plaintiffs also have indicated they intend to serve a notice of deposition of Apple pursuant to Rule 30(b)(6). *Id.* None of these witnesses have knowledge of the kind of cost and income issues that relate only to Plaintiffs' claim for damages in the form of Defendants' net profits. The depositions of these individuals will focus almost entirely (if not exclusively) on liability issues.

On May 5, 2008, Defendants filed a Motion for Summary Judgment. In that Motion, Defendants argue that the challenged uses of the compositions have been authorized, either expressly, through "Controlled Composition" clauses in Eminem's artist recording agreements with Aftermath; or by the legal doctrine of implied license, based on the parties' overall course of conduct, including Plaintiffs' unbroken acceptance of license payments covering the uses they now challenge.

---

[3] The Encinas Declaration is attached as Exhibit 6 to this Motion.

B. Plaintiffs' Demand For Discovery Into Defendants' Net Profits Related to the Compositions

A number of the written discovery requests that have been served in this case relate to issues regarding whether Defendants are liable for copyright infringement, as Plaintiffs contend. These requests have included Defendants' requests to Plaintiffs relating to evidence of ownership of the compositions in issue, as well as discovery by both sides into matters involving whether Defendants' sale of sound recordings that embody the compositions has been authorized. Encinas Decl. ¶ 2.

Plaintiffs have also served interrogatories and requests for documents that go to the question of damages under the Copyright Act. Specifically, Plaintiffs have served a variety of written requests for documents and information relating to Plaintiffs' potential claim to recover Defendants' net profits from the distribution of the recordings that embody the compositions. These requests have included:

> (1) Each and every document that shows all sales and distribution figures (including but not limited to free and promotional copies), revenues, expenses, profit and losses, and reserves for the sale or distribution of the sound recordings of the Eminem Compositions, both domestically and internationally, in any digital media, including but not limited to interactive and non-interactive streaming transmissions, permanent and conditional downloads, mastertones and ringtones, including but not limited to any accountings and all supporting documentation, invoices, statements or other calculations.
>
> (2) Each and every document showing all money or revenue earned and/or received by Defendants for the sale or distribution or the licensing for sale, distribution, or exploitation of the Eminem Compositions, including any fees and royalties collected by Defendants, in any digital media, including but not limited to interactive and non-interactive streaming rights, advertising, mastertones and ringtones, including the accounting period in which the revenue was earned, the quarter in which the revenue was received and the source of such revenue.

(3) All documents referencing or showing any of your costs related to the downloading or streaming of sound recordings of the Eminem Compositions.

Ex. 1 (Plaintiffs' Request for Production of Documents Nos. 14-15 & 19).

Leaving aside that the requests far exceed the allegations in this case, compliance with these requests as to even the relevant portions will impose tremendously high costs on Defendant Aftermath and its partner, UMG. As noted, UMG is responsible for distributing the recordings in the Aftermath catalogue. UMG also maintains various financial records that relate to the same. However, UMG does *not* maintain profit and loss analyses by individual album or recording titles. Declaration of Charles Ciongoli ("Ciongoli Decl.") ¶ 4.[4] The process of preparing profit and loss reports for each individual title at issue in this case would have to be done manually. This would entail gathering information relating to income and costs across the entire process of creating and distributing the sound recordings embodying the compositions in issue. *Id.* The process of releasing a sound recording embodying a composition is an extremely lengthy and involved process that involves a number of categories of income and expenses. *Id.* ¶ 5. The categories of income and expenses include those relating to the following:

(1) Signing an Artist: Signing costs include "legal expenses, A&R ('artist and repertoire') expenses, signing costs, and other miscellaneous transaction costs associated with the negotiation, drafting, and ultimate execution of the recording agreement." *Id.* ¶ 6(a).

(2) Creating an Album: Costs for creating an album embodying compositions include in-studio session time, purchase or rental of musical or technical equipment, travel, catering receipts, money paid to any person employed to assist with the production or recording of an album, and payments made on any mechanical or other license. *Id.* ¶ 6(b).

---

[4] The Ciongoli Declaration is attached as Exhibit 7 to this Motion.

(3) Post-Recording Marketing: These costs include artist photo shoots, graphic designs for the album cover, the selection of the first single recording release, video production for the first single release, tour support, and a host of advertising and other promotional expenses. *Id.* ¶ 6(c).

(4) Marketing, Promotion, and Distribution, including Digital Activity: Income records for distribution of sound recordings embodying compositions include periodic accounting statements from any digital, mobile, or internet company that has an agreement to sell or exploit UMG's content. These accounting statements are manually uploaded to various computer systems and are generally summarized on a monthly basis. The accounting statements are organized by the distributor or retailer (e.g., Defendant Apple's iTunes) and the back-up documentation for the accounting statements are also maintained according to retailer. UMG can receive over a hundred accounting statements a month that have thousands of song level reported activity. *Id.* ¶ 6(d).

Synthesizing this income and cost information into a profit and loss analysis for the 93 compositions in issue would entail significant time and expense; it likely would take in excess of hundreds of employee hours (if not more). *Id.* ¶ 8. Of course, if Plaintiffs fail to prove liability, the assuredly extensive and tedious discovery on damages will have been an exercise in futility.[5]

The Court's Scheduling Order does not include a schedule for expert discovery. Plaintiffs have responded to several of Defendants' discovery requests – including requests directed to any evidence that Plaintiffs may have of their actual damages – by stating that the requests are premature until expert discovery commences. Exs. 2 (Eight Mile) at 14 & 3 (Martin Affiliated) at 14 (Plaintiffs' Responses to Document Request No. 20); Encinas Decl. ¶ 2.

---

[5] Defendant Apple has objected to Plaintiffs' requests for profit and loss information, but has agreed to produce such information at this juncture because Apple's computer database system is able to generate profit and loss information by individual track. Encinas Decl. ¶ 3. The fact that Apple's computer records are organized this way is not surprising, since Apple predominantly sells individual tracks of sound recordings through its iTunes Store. As explained, record companies such as UMG and Aftermath, in contrast, incur a plethora of costs and generate revenue from multiple sources in connection with their distribution of sound recordings. Ciongoli Decl. ¶¶ 5-7. Accordingly, the discovery related solely to damages issues such as defendant's net profits is considerably more burdensome for Aftermath than for Apple. Apple nevertheless joins in this bifurcation motion.

Plaintiffs have yet to produce a single document showing any of the damages they might claim as their own. *Id.* Hence, it appears that Plaintiffs will not try to claim any actual damages of their own, but rather likely will (if liability is found) pursue Defendants' net profits. Adding to the expense and burden of damages-related discovery is the cost of experts to: (1) analyze and opine on the profit and loss discovery described above, and (2) analyze and opine on the apportionment issues.

This Motion seeks to avoid the expense and inherent delay associated with burdensome and time-consuming damages discovery such as that described above. With just over a month of discovery remaining, it will be virtually impossible for Aftermath to complete the damages discovery requested by Plaintiffs based upon the sheer volume of analysis that must be done to produce the requested information. Given the remaining liability discovery that still remains, extensive damage discovery and analysis will detract from the central issue of the case. Moreover, as set forth below, the nature of a copyright infringement action is such that proof of liability and damages have no common aspects. Put simply, there is no factual overlap. Thus, this Court should grant Aftermath's motion to bifurcate trial on the issues of damages and liability.

III. ARGUMENT

A. Liability and Damages Issues May Be Bifurcated When Those Issues Are Unrelated and Bifurcation Will Further Judicial Economy

1. The Court Has Broad Discretion Under Rule 42(b) to Order Bifurcation

Rule 42(b) governs the bifurcation of trials. It provides:

> The court, in furtherance of convenience or to avoid prejudice, or when separate trials will be conducive to expedition and economy, may order a separate trial of any claim, cross-claim, counterclaim, or third-party claim, or of any separate issue or of any number of claims, cross-claims, counterclaims, third-party claims, or issues, always preserving inviolate the right of trial by jury as declared by the Seventh Amendment to the Constitution or as given by a statute of the United States.

A trial court has broad discretion under Fed. R. Civ. P. 42(b) to order separate trials on separate issues. *American Trim, L.L.C. v. Oracle Corp.*, 383 F.3d 462, 474 (6th Cir. 2004); *In Re Bendectin Litigation*, 857 F.2d 290, 307 (6th Cir. 1988).

2. Bifurcation Is Appropriate When Issues Related to Liability and Damages Are Not Related

"Bifurcation of issues of liability from those relating to damages is an obvious application of Rule 42(b)." *Hines v. Joy Manufacturing Co.*, 850 F.2d 1146, 1152 (6th Cir. 1988). Issues of liability and damages are particularly suitable for bifurcation because "[l]ogically, liability must be resolved before damages may be considered," and "[o]ften the evidence relevant to the two issues is wholly unrelated." *Id.*

The Sixth Circuit has held that bifurcating liability and damages "is appropriate when 'the evidence pertinent to the two issues is wholly unrelated' and the evidence relevant to the damages issue could have a prejudicial impact upon the jury's liability determination." *Helminski v. Ayerst Laboratories*, 766 F.2d 208, 212 (6th Cir. 1985) (quoting 9 C. Wright & A. Miller, *Federal Practice & Procedure* § 2390 (1971)); *see also Gafford v. General Electric Co.*, 997 F.2d 150, 172 (6th Cir. 1993) (holding that the district court's bifurcation of liability and damages was appropriate because those issues were "sufficiently unrelated"). As held by the Sixth Circuit, when liability and damages are sufficiently separate, prejudice to the defendant will occur when the factfinder is presented with evidence unrelated to liability:

> [C]onsideration [by the factfinder] of evidence not related to the question of liability appears to be a type of prejudice which is to be avoided by separating the issues of liability and damages under Rule 42(b).

Hines, 850 F.2d at 1150 (citing *Crummett v. Corbin,* 475 F.2d 816, 817 (6th Cir. 1973)).

3. Bifurcation of Liability from Damages Is Appropriate to Avoid Potentially Unnecessary Discovery and to Conserve Judicial Resources

When liability and damages are wholly unrelated, not only does bifurcation avoid prejudice, it serves judicial economy. *See Gafford*, 997 F.2d at 172 (granting bifurcation because separating liability from damages conserved judicial resources); *Cravens v. County of Wood, Ohio*, 856 F.2d 753, 755 (6th Cir. 1988) (granting bifurcation on liability versus damages because it would result in a "time savings" for the Court and the parties). Bifurcation "permit[s] deferral of costly and possibly unnecessary discovery proceedings pending resolution of potentially dispositive preliminary issues." *Ellingson Timber Co. v. Great Northern Railroad Co.*, 424 F.2d 497, 499 (9th Cir. 1970).

B. Bifurcation Is Practical in Copyright Cases: Proof of Liability and Damages Is Wholly Unrelated

This Court should grant Defendants' Motion because the issues related to Plaintiffs' allegations of copyright infringement and the issues related to damages alleged to flow therefrom are separate and distinct. This is because the nature of proof required to establish liability in this infringement case is not in any way intertwined with issues of Plaintiffs' alleged lost revenues and Defendants' net profits.

1. The Elements of Establishing Copyright Infringement Do Not Encompass any Issues Related to Plaintiffs' Claimed Actual Damages or Aftermath's Profits

In copyright cases, the central question is whether the defendant infringed on plaintiff's copyrighted creation. *Murray Hill Publications, Inc. v. Twentieth Century Fox Film Corp.*, 361 F.3d 312, 316 (6th Cir. 2004). As a general proposition, to prove infringement, a plaintiff must show ownership and defendant's infringement of one or more of the exclusive rights protected by copyright. *Id.*

Unlike a typical tort case where there may be no liability in the absence of damages, the Copyright Act provides a plaintiff with various forms of relief upon proof of infringement. If a plaintiff proves infringement, it may seek relief in the form of an injunction and/or impoundment of the infringing materials, as well as monetary damages and legal costs (which includes attorney's fees in appropriate cases). *Murray Hill Publications, Inc.*, 361 F.3d at 316; *see also*, 17 U.S.C. §§ 502-505. The Copyright Act provides that a defendant that has been adjudicated an infringer is liable either for "statutory damages" *or* for "the copyright owner's actual damages and any additional profits of the infringer," at the election of the successful copyright plaintiff.

17 U.S.C. § 504(a). The range of statutory damages is fixed by the Act itself. *Id.* § 504(c). The components of "actual damages and profits" – the other possible measure of damages – are prescribed in Section 504(b):

> The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, *and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages*. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and *the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.*

Id. § 504(b) (emphasis added).

The inquiry into a plaintiff's actual damages and a defendant's profits under Section 504(b) may include litigation over the defendant's profits less its deductible expenses, which is a time-consuming and complex inquiry. *See generally* 4 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright* § 14.03 (2007) (canvassing multiple issues subsumed in inquiry into defendant's net profits). It also must include an apportionment analysis. *Id.*

2. Given the Unrelatedness of Liability and Damages in Copyright Cases, Bifurcation Is Proper

Since the issues of liability and damages are sufficiently separate in copyright cases, bifurcation is appropriate. *See Swofford v. B&W, Inc.*, 336 F.2d 406, 415 (5th Cir. 1964) ("[V]alidity, title, infringement and damages in patent and copyright cases may be separately tried, unless this course will inconvenience the court or seriously prejudice the rights of some of the parties."). Moreover, given the separate nature of the proofs, the complex issue of damages is appropriately bifurcated for the sake of judicial economy and convenience. *See Apple Computer, Inc. v. Microsoft Corp.*, 821 F.Supp. 616, 630 (N.D. Cal. 1993). Bifurcation of liability from damages is appropriate and logical in copyright cases. In fact, "it is the rare copyright case in which the facts that bear on monetary recovery – the extent of the plaintiff's injury and the defendant's profits – will even marginally overlap the facts that bear on liability – ownership, infringement and affirmative defenses." Goldstein, *supra*, § 16.5. Professor Goldstein notes in his leading treatise that bifurcation of liability and damages issues will save "the defendant from what may turn out to be the needless, but invariably time-consuming, task of responding to a plaintiff's discovery requests on net profits." *Id.* While "a plaintiff may need some information on the defendant's profits to evaluate settlement proposals effectively," "a discovery order entered before the liability trial, and limited to the defendant's gross revenues from the allegedly infringing venture, should adequately serve this purpose." *Id.*

As in most copyright cases, this case presents exactly the reasons that Professor Goldstein cites as proper bases for bifurcation.

3. In This Case, the Evidence on Liability and Damages Issues Is Separate and Unrelated

As Professor Goldstein stated, "it is the rare copyright case in which the facts that bear on monetary recovery – the extent of the plaintiff's injury and the defendant's profits – will even marginally overlap the facts that bear on liability – ownership, infringement and affirmative defenses." Goldstein, *supra*, § 16.5. This is not one of those "rare cases."

Plaintiffs' theory of liability is that Aftermath did not have the right to authorize Apple to sell Eminem sound recordings that embody the compositions in issue without securing a separate license from Plaintiffs allowing Aftermath to give Apple that authority. Exs. 4 at 6-8 (Eight Mile) & 5 (Martin Affiliated) at 6-8 (Plaintiffs' Responses to Interrogatory No. 5, asking for the factual bases for their core copyright allegations). Plaintiffs assert that:

> [T]o the best of [their] knowledge, Plaintiffs have never authorized Universal [i.e., UMG, part owner of Aftermath] to license Plaintiffs' compositions to Apple.... Plaintiffs have not authorized Apple, or permitted Aftermath on Plaintiffs' behalf to authorize Apple, to reproduce, distribute and sell Plaintiffs' copyrighted compositions, much less reproduce, distribute and sell them without compensation to either or both of the Plaintiffs.

Id. at 6-7. Defendants disagree with Plaintiffs' position on liability. As set forth in Defendants' pending summary judgment motion, the sale of the recordings, including the compositions embodied therein, has been specifically authorized by the Plaintiffs. That distribution is authorized in Aftermath's artist recording agreement with Eminem, pursuant to which the sound recordings were created. Those agreements contain provisions that expressly authorize Aftermath to distribute Controlled Compositions through Aftermath's distributors or licensees:

> All Controlled Compositions (i.e., songs written or controlled, directly or indirectly, in whole or in part, by F.B.T., Artist [Eminem], any affiliated company of F.B.T., Artist, any producer or any affiliated company of any producer) will be licensed to Aftermath and its distributors/licensees and Aftermath and its distributors'/licensees' Canadian licensee for the U.S. and Canada, respectively, at a rate equal to 75% (the "Controlled Rate") of the minimum statutory rate (i.e., without regard to the so-called "long-song formula").

Summary Judgment Ex. A ¶ 6(a) (1998 Agreement). *See also* Summary Judgment Ex. D ¶ 6 (2003 Agreement). Plaintiffs expressly plead in their Complaint that all of the musical compositions in issue were "written and composed, in part, by [Eminem]." Compl. ¶ 8. Accordingly, all of the compositions in issue are Controlled Compositions within the meaning of these provisions of Eminen's artist recording agreements. Accordingly, Defendants contend that the sale of recordings embodying those compositions through Apple is expressly authorized.

Plaintiffs assert that the Controlled Composition clauses do not "contemplate[] or cover[]" "digital uses." Exs. 4 at 15 (Eight Mile) & 5 at 14 (Martin Affiliated) (Plaintiffs' Response to Interrogatory No. 15). Defendants demonstrate in their summary judgment motion why Plaintiffs are wrong on the facts and the law.[6] Defendants also demonstrate that, *even if* Plaintiffs are right in their contention that the Controlled Composition clauses do not cover "digital uses," Defendants *still* are entitled to summary judgment based on well-established law that holds that, by their conduct, Plaintiffs have impliedly licensed the challenged uses. Indeed, Plaintiffs have received (and are continuing to receive) substantial royalties for the very rights they now say they never granted. What is more, at the same time they are pursuing this suit, Plaintiffs are pursuing in a different federal court a breach of contract claim against Aftermath under those same agreements; that claim is premised on Aftermath *having* the right to sell the sound recordings over iTunes, but not paying Plaintiffs' sibling LLCs a high enough royalty on those sales under the contracts. These and other undisputed facts establish, at a minimum, an implied license as a matter of law.

As a matter of practical reality, there is not, nor could there be, any overlap between the foregoing liability issues and questions of damages on a theory of Aftermath's net profits. The liability portion of this case necessarily will focus on questions of authorization. A damages inquiry focused on Aftermath's profits will focus on completely unrelated questions of the amount of money received by Aftermath for the digital uses challenged in this case, and which expenses are deductible therefrom to calculate "net" profits. There simply is no overlap in the separate elements of proof concerning liability and these damages issues. Where, as here, there is no such overlap, bifurcation is appropriate under Rule 42(b). *See Gafford*, 997 F.2d at 172; *Hines*, 850 F.2d at 1152; *Helminski*, 766 F.2d at 212; Goldstein, *supra*, § 16.5.

---

[6] The law in this area is very clear and recently led one New York District Court judge to dismiss a similar claim in response to a Rule 12 motion. *Reinhardt v. Wal-Mart Stores, Inc.*, No. 07 Civ. 8233 (SAS), 2008 WL 1781232, at *5 (S.D.N.Y. Apr. 18, 2008).

C. Bifurcation Will Avoid Prejudice to Defendants

As held by the Sixth Circuit, when issues of liability and damages are wholly separate, the consideration of those two issues by the factfinder at the same time is the "prejudice" that Rule 42(a) seeks to avoid. *See Hines*, 850 F.2d at 1150. As stated by Goldstein, *supra*, bifurcation also seeks to avoid the unnecessary prejudice to the defendant in having to waste valuable resources participating in discovery and litigating over damages when those issues may never become relevant if liability is not proven.

The potential prejudice to Defendants from damages issues being raised during trial is palpable. Eminem is one of the most popular recording artists in the world today. His songs have generated tremendous sales for Aftermath and Apple. The significant dollar figures associated with revenues from Eminem sound recordings could impact the factfinder's determination of liability, which is a reason why bifurcation is appropriate. Plaintiffs almost certainly will use Defendants' high level of sales of Eminem recordings to justify what will likely be a substantial demand for damages. That is why courts routinely grant bifurcation where, as here, liability issues are unrelated to damages issues. *See Gafford*, 997 F.2d at 172; *Hines*, 850 F.2d at 1152; *Helminski*, 766 F.2d at 212. The question of the level of sales and profit garnered from the distribution of the Eminem recordings is not material to whether Defendants infringed upon Plaintiffs' compositions. It only serves to confuse and prejudice the factfinder.

In addition to the potential prejudice to Defendants at trial, a discovery and trial schedule that is not bifurcated will require Aftermath to engage in burdensome discovery on the wholly separate issue of damages. This entails examination of separate sources of proof, different witnesses, and potentially will require the retention of experts. As set forth in the attached declaration of Charles Ciongoli, discovery into these issues will be time-consuming and costly. Neither Aftermath nor UMG maintains profit and loss data corresponding to individual tracks. That information would have to be compiled manually. This is a laborious and painstaking process that in this case would consume hundreds of hours (if not more) of UMG employee time over an extended period of time. This work, and the time commitment associated with this work, would be on top of these employees' daily job responsibilities. Ciongoli Decl. ¶ 8. That type of burden is precisely why Goldstein, *supra*, states that the best course in copyright infringement actions is to litigate liability, which in and of itself can be a complex matter, before moving along to the even more intricate, yet unrelated, issue of damages.

In contrast to the severe prejudice to Defendants from proceeding with the current schedule, bifurcation will not prejudice Plaintiffs at all. As noted, Plaintiffs have requested the depositions of eight Aftermath-affiliated witnesses. None of these witnesses is likely to have information relevant to damages issues. Four of these witnesses (Rand Hoffman, Lisa Rogell, Scott Aronson, Todd Douglas) are current or former employees in business and legal affairs for Interscope Geffen A&M Records within UMG. One of these witnesses (Peter Paterno) is a lawyer for Aftermath at a private law firm. None of these witnesses is likely to have testimony regarding Aftermath's net profits. The three remaining Aftermath-affiliated witnesses Plaintiffs have requested to depose (Chad Gary, Fred Eisler, and James Harrington) deal with mechanical licensing and royalty issues, and likewise are unlikely to have testimony regarding Aftermath's profits. Plaintiffs have not disclosed that they have any expert prepared to analyze Aftermath's net profits. Indeed, Plaintiffs have declined to provide any discovery at all relevant to their claim of actual damages. If this Court were to bifurcate the issues, and if Plaintiffs somehow could prove liability, Plaintiffs certainly will have ample time to conduct adequate discovery on damages and then conduct a second trial solely on that focused issue. There is no prejudice to Plaintiffs from bifurcating the two issues.

D. Bifurcation in This Case Will Conserve Court and Party Resources and Serve the Interest of Judicial Economy

It is beyond doubt that bifurcation will conserve judicial resources and avoid potentially unnecessary discovery and trial expenses. *See* Goldstein, *supra.* As stated above, Plaintiffs are just now pressing the damages issues. Bifurcation will allow the parties to focus, for the time being, on liability. If proven, the parties can then begin the arduous task of litigating damages. To do so now, given the small window of remaining discovery and the serious questions concerning liability, is unnecessary. This way, the parties can focus on the substantive issue of the case – whether Defendants have infringed – without the distraction of litigating discovery and trial issues related to the calculation of Aftermath's net profits. The most prudent course in these circumstances is bifurcation. *See Gafford*, 997 F.2d at 172; *Cravens*, 856 F.2d at 755; *Ellingson Timber Co.*, 424 F.2d at 499.

IV. CONCLUSION

Defendants respectfully request that this Court grant its Motion to Bifurcate Damages Discovery and Trial, pursuant to Fed. R. Civ. P. 42(b), and order that the issue of liability be tried and subject to discovery first and separately from the issue of damages.

Respectfully Submitted,

s/Daniel D. Quick
Daniel D. Quick (P48109)
Dickinson Wright PLLC
38525 Woodward Avenue
Suite 2000
Bloomfield Hills, MI 48304
(248) 433-7200
dquick@dickinsonwright.com
Attorneys for Defendants

Kelly M. Klaus
Munger, Tolles & Olson LLP
355 South Grand Avenue
Suite 3500
Los Angeles, CA 90071-1560
(213) 683-9238
kelly.klaus@mto.com
Attorneys for Aftermath Records

CERTIFICATE OF SERVICE

I hereby certify that on 5/9, 2008, I electronically filed the foregoing document with the Clerk of the Court using the ECF system which will send notification of such filing to the all counsel.

s/Daniel D. Quick
Daniel D. Quick (P48109)
Dickinson Wright PLLC
38525 Woodward Avenue
Suite 2000
Bloomfield Hills, MI 48304
(248) 433-7200
dquick@dickinsonwright.com